

Board: 27 March 2014
Agenda item:

2014/15 Interim revenue budget and final 14/15 capital budget

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An Associated University Hospital of
Brighton and Sussex Medical School

2014/15 budget update

Purpose of report and action required:

- “ i) approval of an interim revenue budget (with review in 1 month) and capital budget, and; ii) confirmation that the Board confirms the Contract with CCGs once negotiations are complete.

Summary:

- The 14/15 financial plan is based on the long term financial model (LTFM) approved by the Board and submitted to the Trust Development Authority in February 2014.
- The Board is asked to approve an interim budget because contract negotiations between both CCGs and NHS England have not been completed. Although a financial envelope was provided recently, detail on transactional measures and activity changes is simply not sufficient to agree. Review of the budget is recommended for April.
- The interim budget assumes no non-recurrent financial support and a cost improvement plan (CIP) of £11.0m (4.8% of turnover). The Board has approved a robust and detail quality impact assessment (QIA) process that all CIPs must pass through.
- The income plan reflects CCG demand growth assumptions, the tariff deflator (which is a 1.1% price reduction) and reduction in non-elective activity from CCG Quality Innovation Productivity & Prevention (QIPP) plans, offset by assumed growth in demand for other activity in line with CCG assumptions and to deliver 18 weeks standards for elective work.
- Reserves include non pay inflation and funding to pay for cost pressures, but the tariff includes only £0.6m to cover costs associated with the Francis and Keogh reports around staffing and 7 day working.
- There is significant risk . there is risk over the delivery of savings and the costs associated with Francis and Keogh . however the main risk is over the contract income . there is currently a £22.0m variance over contract assumptions with CCGs .
- The net risk to the financial plan is estimated at £21.5m, mainly due to the Contract position (driving the need for an interim budget)
- The final capital budget for 14/15 reflects year one of the capital plan approved as part of the LTFM and Integrated Business Plan process with a few amendments. The planned capital spend (excluding donated assets) for 14/15 is £19.2m . however the capital resource limit will not be confirmed by the DH until all 14/15 plans have been signed off.

Relationship to Trust corporate objectives

Relevant objective:

- “ **Objective 4** – Become a Sustainable, Effective Organisation . live within our means both in year and sustainably into the future. **Key targets** - delivery of agreed financial budget (breakeven) and deliver savings target (£11.0m)

2014/15 budget update

Corporate impact assessment:

<p>Legal:</p>	<p>No legal breach is reported, or forecast.</p> <p>NHS Trust financial performance is subject to Schedule 5 of the NHS Act 2006 (the %breakeven duty+). This was breached in 2007/08 and the Auditor has notified the Secretary of State in several letters as required by Section 19 of the Audit Commission Act. The Trust continues to have permission to spend through agreement of its previous financial plans and its compliance with the conditions of its working capital loan. Legal aspects impact on individual parts of spend and income according to the nature of the spend & source of income but no other material disclosures are appropriate.</p>
<p>Regulation:</p>	<p>No regulatory breach is reported, or forecast.</p> <p>Financial information is reported according to IFRS (International Financial Reporting Standards) and NHS conventions in guidance. The Audit Commission reviews compliance in its audit activities and its opinion of the Accounts. Data here is presented in an EBITDA format to allow comparison with Monitor metrics. Assurance on Trust systems is also provided by internal audit through the AAC.</p>
<p>Patient experience/ engagement:</p>	<p>No adverse impact reported or expected. Cost improvements have been/will be cleared by senior clinicians through a Board approved quality impact assessment. Financial decisions continue to balance operational & clinical need against budget delivery and there is no clash leading to an adverse impact, including in respect of patient experience. Indeed the Trust continues to target investment to improve patient experience. Action is, however, being taken to control areas of spend (like agency costs) that are inappropriately high and income to cover activity related costs is being pursued with CCGs. Please see risk page. Assurance has been provided to Board sub-committees about the appropriateness of clinical staffing levels and is subject to separate papers to Board.</p>
<p>Risk & performance management</p>	<p>No compliance issues. Risks are stated in the report.</p> <p>Important note: the budget described is an interim, not a deficit, budget but the Trust has not reached a Contract agreement (so income) with CCGs and the %gap+provides significant risk without any informal advice on %cover+(ie: no suggestion from TDA or CB about management beyond local agreement). Noting that, the Board is being asked to review the budget in a month.</p>
<p>NHS constitution; equality & diversity; communication.</p>	<p>No compliance issues.</p> <p>In respect of communication, Trust financial performance is reported through an on-line financial system in some detail to operational areas and is supported by a hierarchy of Divisional and Board reporting that pulls together activity, HR, finance, performance and quality.</p>

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Summary: 2014/15 interim revenue budget

The proposed financial plan has changed slightly from the long term financial model (LTFM, and therefore from the plan submitted to the TDA in February) to take account of revised assumptions

Key points about the plan:

The budget delivers a £2.3m surplus in 14/15, with the inclusion of £1.0m of non recurrent costs (for restructuring).

The budget projects an underlying recurrent position at the end of 14/15 of a £3.3m surplus, improving from a £4.3m deficit at the end of 13/14.

The cost improvement plan (CIP) is £11.0m . 4.8% of turnover. This level of cost improvement is necessary to recover the underlying deficit at the end of 13/14 and deliver the 4% national efficiency target . The Quality Impact Assessment (QIA) process for reviewing cost improvement plans is on going and will be completed by the end of April 14. The Board will receive a CIP update and copies of QIAs at its April meeting.

The income plan reflects CCG demand assumptions, reduction from tariff deflation and the impact of CCG QIPP plans

Reserves include pay and non pay inflation funding and the contingency.

There is a £1.0m contingency included in the plan (as recommended by guidance) . this includes £0.6m for costs arising from Francis/ Keogh and 7 day working. This may not be enough and discussion will be needed with commissioners.

There is significant risk (£21.5m) . the CCG spend plan (income for the Trust) is £22.0m lower than our plan, the CIP target is challenging and the costs of Francis/ Keogh may be greater than the £0.6m available from the tariff

The risk means that it is recommended that the Board reviews the interim budget in April 2014.

	2013/14 Forecast Outturn	2013/14 Annual Budget	2014/15 Annual Budget
	£'000	£'000	£'000
Income (excl Divisional income):			
Contract income (incl MFF)	207,840	207,202	210,687
Winter Pressure Funding	685	685	0
Non-Recurring Financial Support	3,500	3,500	0
	212,025	211,387	210,687
High Cost Drugs & Devices	(9,945)	(8,893)	(10,593)
Other Income (including training income)	7,991	8,370	7,737
Total income	210,071	210,864	207,831
Divisions (inc Divisional income):			
Surgical Division	56,621	55,482	53,963
Medical Division	44,588	44,189	43,279
Women & Children	22,157	22,288	21,844
Clinical Support Services	30,670	29,613	29,321
Cancer Division	2,547	2,490	2,483
Clinical Services Directorate	4,731	4,409	4,471
Estates & Facilities	13,216	13,178	12,729
Human Resources	2,797	2,797	2,438
Chief Executive Office	758	758	700
Restructuring Costs	1,387	2,300	1,150
Finance, Contracting & Procurement	3,085	3,085	3,071
Nursing Directorate	3,092	3,017	2,957
Business Intelligence	3,033	3,033	2,973
Corporate Affairs	1,324	1,324	1,086
Occupation Charges & Insurance	9,375	9,694	9,260
Prior Year Adjustments	(378)	0	0
Cost & Activity Pressures & Central Savings (to be allocated)	75	2,124	1,778
Total Divisional I&E	199,079	199,781	193,502
Earnings Before Depreciation & Finance Charges (EBITDA)	10,992	11,083	14,329
Depreciation & Financial Charges:	10,692	11,083	12,029
Net Surplus / (Deficit)	300	(0)	2,300

2014/15 Proposed Capital Plan

14/15 Proposed Capital Plan – changes from LTFM

- The Capital plan for 14/15 is based on the plan submitted within the Estates strategy/ IBP and LTFM with some adjustments for business cases finalised after that version.
- The changes made to the version signed off by the Board as part of the LTFM/IBP process can be summarised as follows:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Total expenditure in LTFM (excl donated)	17,558	10,975	10,075	10,725	11,510	60,843
Expenditure changes						
Theatres phase 2 (increase for £900k cfwd from 13/14)	900					900
Angio / Cardiac Unit (capital increase from £3.1m to £3.9m as per OBC)	800					800
BOC respiratory (was included at £238k but costs will be reimbursed)	(238)					(238)
Pathology joint venture - costs to be included		1,128	2,050			3,178
EPR replacement to reflect OBC figures	9	(173)				(164)
EPMA (in LTFM at £300k for 14/15) - reflect OBC and further approval	242	72				314
Macmillan (to reflect final OBC- was in LTFM at £210k in 14/15)	(85)	324				239
Total changes to expenditure	1,628	1,351	2,050	0	0	5,029

- The changes have been funded as follows:
 - The PDC associated with the £0.9m theatres rephasing will be received now in 14/15 . we do need the DH to confirm that the Trusts Capital Resource Limit will be increased for 14/15 for this roll over of funds.
 - The capital loan assumed for 14/15 was £3.6m . it is now assumed at £4.4m.
 - To note (though not in 14/15) the pathology capital is now assumed to also be funded by loans in 15/16 and 16/17.
 - There have been minor adjustments to the depreciation calculations and the internally generated income lines. The final funding table is shown on the next page.

Capital 14/15 funding table

The funding assumed is as follows:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Funded by:						
Depreciation	8,097	9,013	10,240	11,168	12,415	50,933
PDC	6,500	0	0	0	0	6,500
Loan	4,400	3,128	2,050	0	0	9,578
Other internally generated income	189	185	0	0	0	374
Total	19,186	12,326	12,290	11,168	12,415	67,385

14/15 proposed capital budget – cont on next page

Item	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Backlog Maintenance						
Leigh/Newdigate	500					500
2 x Ward Upgrade - Ph2		500				500
2 x Ward Upgrade - Ph3			500			500
2 x Ward Upgrade - Ph4				500		500
2 x Ward Upgrade - Ph5					500	500
Haematology Outpatients	175					175
Resus & CT in ED	250					250
Theatres Phase 2	1,500					1,500
Building services infrastructure - eg pipes, gases, elec	125					125
Fire Doors	250					250
Windows replacement programme (Estates)	250	250	250	250		1,000
Non-ward works - general maintenance	125	125	125	125	125	625
Ward Improvements Group	125	125	125	125	125	625
Total	3,300	1,000	1,000	1,000	750	7,050
On-going Maintenance						
Leigh/Newdigate	500					500
2 x Ward Upgrade - Ph2		500				500
2 x Ward Upgrade - Ph3			500			500
2 x Ward Upgrade - Ph4				500		500
2 x Ward Upgrade - Ph5					500	500
Haematology Outpatients	175					175
Resus & CT in ED	250					250
Theatres Phase 2	3,000					3,000
Building services infrastructure - eg pipes, gases, elec	125	125	125	125	125	625
Non-ward works - general maintenance	125	125	125	125	125	625
Ward Improvements Group	125	125	125	125	125	625
Total	4,300	875	875	875	875	7,800
Modernisation						
Resus & CT in ED	600					600
Theatres Phase 2	2,000					2,000
Car park improvements	250	250	400	50	50	1,000
East Entrance		300				300
Childrens Assessment Unit Move to ED			500			500
Outpatient Redesign and rebuild			1,500	3,500		5,000
Unallocated			165	443	4,690	5,298
Kitchen Ventilation & Modernisation	110			500		610
Pharmacy move and redesign					2,000	2,000
Total	2,960	550	2,565	4,493	6,740	17,308

14/15 proposed capital budget – cont.

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
New Development						
Angio/Cardio Private Patient Unit	3,900					3,900
BoC Respiratory						0
MacMillan	125	324				449
Mammography	500					500
Replacement of Maple Annex with Two-Storey inc Health Records		2,000				2,000
Paediatric High Dependency Unit					500	500
Maternity Expansion for >5,000 Births			500	250		750
Private Patient Wing			2,000			2,000
Pathology joint venture		1,128	2,050			3,178
Total	4,525	3,452	4,550	250	500	13,277
Energy Efficiency						
Site power	400					400
Combined Heat and Power			1,000	500		1,500
Total	400	0	1,000	500	0	1,900
Information Technology						
IT hardware	300	300	300	300	800	2,000
Network Upgrade			250			250
EPR Replacement	509	4,327				4,836
Document Management - i.e. Records replacement				2,000	1,000	3,000
EPMA	542	72				614
Email replacement	200					200
Windows upgrade (IT)	400					400
Total	1,951	4,699	550	2,300	1,800	11,300
Medical Equipment						
Fixed allocations (medical /theatres / endoscopes)	500	500	500	500	500	2,500
Medical Equipment Replacement	1,000	1,000	1,000	1,000	1,000	5,000
Total	1,500	1,500	1,500	1,500	1,500	7,500
Capital Programme Management						
Capital Project Management	250	250	250	250	250	1,250
Total	250	250	250	250	250	1,250
Total	19,186	12,326	12,290	11,168	12,415	67,385